

The Presiding Officer
States of Guernsey
Royal Court House
St Peter Port

Edward T Wheadon House
Le Truchot
St Peter Port
GY1 3WH
+44 (0) 1481 220410
scrutiny@gov.gg
www.gov.gg

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Dear Sir

**THE POLICY & RESOURCES COMMITTEE: THE STATES OF GUERNSEY GROUP
CONSOLIDATED FINANCIAL STATEMENTS 2025**

This Letter of Comment from the Scrutiny Management Committee (SMC) is submitted in accordance with Section 3(19) of the Rules of Procedure.

The Scrutiny Management Committee, through its Public Accounts Sub-Committee, held a public hearing on 11 June 2026 to examine the States Accounts 2025.

The purpose of the hearing was not to revisit the external audit process or challenge compliance with International Public Sector Accounting Standards (IPSAS), but rather to consider whether the Accounts fulfil their primary democratic purpose: enabling Deputies and the public to understand the financial position, performance and sustainability of the States of Guernsey. The Committee considers this accountability test to be the most important measure of the Accounts' effectiveness.

The Committee acknowledges the significant work undertaken by officers and the Policy & Resources Committee in producing the Accounts and notes that they have received an unqualified audit opinion. The hearing also confirmed that the adoption of IPSAS has improved the quality, consistency and transparency of financial reporting when compared with historical arrangements. During the hearing, both officers and members of Policy & Resources emphasised the benefits of international standards, improved balance sheet reporting and greater comparability with other jurisdictions.

However, the Committee's principal concern is not whether the Accounts are technically correct, but whether they are sufficiently accessible and understandable to those for whom they are ultimately intended.

A recurring theme throughout the hearing was the distinction between technical compliance and public accountability. The Accounts report a Group surplus of £106 million, yet readers are also directed towards a core government surplus, an

operating surplus and an estimated underlying funding gap of approximately £50 million. The Treasurer's Report itself seeks to explain why certain headline figures should be interpreted with caution and why alternative measures may provide a better understanding of the underlying fiscal position.

The Committee accepts that these distinctions are legitimate and may be necessary. Nevertheless, the need for extensive explanation raises an important question: if informed Deputies require significant narrative interpretation in order to understand the Accounts, how realistic is it to expect members of the public to do so?

The Committee considers that an interested taxpayer would struggle to determine from the Accounts:

- whether government is living within its means;
- where tax revenues have been spent;
- how much of reported surpluses are attributable to operational performance as opposed to investment market movements;
- what level of reserves is genuinely available; and
- how major projects and programmes have affected the overall financial position.

These concerns were central to the hearing and reflect the accountability test that underpinned the Committee's approach.

The Committee was also struck by the treatment of unrealised investment gains. Whilst their inclusion is required under IPSAS and provides a complete accounting picture, the hearing highlighted that the same gains are subsequently excluded when discussing the States' longer-term structural financial position and estimated funding gap. During the hearing, unrealised gains were defended as a legitimate component of the reported surplus and an important indicator of the States' overall financial position. However, when explaining the existence of an underlying funding gap, those same gains were excluded on the basis that they do not represent recurring revenues available to support public services.

Whilst both approaches may be defensible in their respective contexts, the Committee considers that their simultaneous use illustrates the difficulty faced by readers attempting to determine the States' true underlying financial position. Figures that are presented as relevant when reporting the annual surplus are subsequently treated as irrelevant when assessing fiscal sustainability. This contributes to the wider difficulty of reconciling the reported surplus with the broader fiscal narrative presented elsewhere by the States and creates a risk that headline figures may mislead rather than inform without careful interpretation.

The Committee further notes concerns relating to governance arrangements. Evidence presented during the hearing confirmed that the Policy & Resources Committee receives the audit findings directly, engages with the external auditors and approves the Accounts. The Committee remains concerned that the absence of an independent Audit Committee, notwithstanding previous States decisions supporting such an arrangement, risks weakening public confidence in the governance framework surrounding the Accounts. During the hearing, members of Policy & Resources indicated that additional oversight and scrutiny could be beneficial and that the issue merits further consideration.

The Committee welcomes the positive response to its suggestion that the Public Accounts Sub-Committee should engage with the external auditors as part of exercising its functions and will seek to ensure that this engagement takes place on an annual basis. The Committee considers this additional level of independent challenge and oversight to be an important component of good governance.

The Committee also examined the relationship between capital expenditure and the reported funding gap.

Members found it surprisingly difficult to identify the current year's capital expenditure from the Accounts. Whilst the information is present, it is contained within detailed notes and is not immediately apparent to a non-specialist reader.

More significantly, the Committee notes that capital expenditure during 2025 was broadly consistent with the States' long-standing objective of investing approximately 2% of GDP in infrastructure. However, equivalent levels of capital investment are also cited elsewhere as a significant contributor to the structural funding gap facing the States in future years.

The Committee does not dispute that such a funding gap may exist. However, it found it difficult to reconcile the reported operating surplus, the achievement of the States' infrastructure investment objectives during 2025, and the assertion that equivalent levels of capital investment are a principal contributor to the structural funding gap going forward. The Accounts do not present this relationship in a manner that readily enables readers to understand how these positions are reconciled.

The Committee also explored transparency around major projects, internal controls and expenditure growth. Whilst explanations were provided, members found it difficult in some instances to identify clearly within the Accounts the full financial implications of significant programmes, including major digital transformation initiatives. The Committee considers that improved presentation and reconciliation of major project expenditure would assist both Deputies and the public in understanding how public money has been invested and what outcomes have been achieved.

The Committee was also concerned by the extent to which expenditure growth appeared to be presented during the hearing as an inevitable consequence of demographic pressures, service demand and increasing organisational complexity. Whilst the Committee accepts that these pressures are real, members were struck by the degree to which expenditure growth was characterised as “demand-driven”, as though largely outside the control of policy makers. The Committee considers that expenditure growth remains a matter of political choice, prioritisation and management. Against a backdrop of continued discussion regarding long-term fiscal sustainability and funding gaps, the Accounts provide limited insight into how expenditure growth is being challenged, what productivity improvements have been achieved, or how additional expenditure is being linked to demonstrable improvements in outcomes.

Accordingly, the Committee recommends that a concise, plain-English, accompanying public-facing financial summary be developed and published alongside future Accounts. Such a document need not replace the statutory Accounts, but could provide a clearer explanation of:

- the underlying operating position of government;
- the relationship between reported surpluses and the structural funding gap;
- how tax revenues are spent;
- the position of reserves and liquidity; and
- major project expenditure and commitments.

The Committee believes that a concise “Where Your Tax Goes” statement and a simplified explanation of the States’ financial position would significantly enhance public accountability whilst preserving full IPSAS compliance. This suggestion was discussed during the hearing and received a broadly positive response.

In conclusion, the Committee finds that the States Accounts 2025 are technically robust and compliant with the reporting standards adopted by the States. However, the Committee concludes that technical compliance alone is not sufficient to satisfy the broader accountability expectations of Deputies and the public.

The Committee notes that, during the hearing, explanations of the States’ financial position repeatedly required reference to adjusted measures, exclusions, alternative presentations and separate policy documents. The Committee considers that this raises a legitimate question as to whether the Accounts themselves are currently providing a sufficiently clear explanation of the States’ underlying fiscal position.

The Committee further notes that the Accounts present a picture of continuing expenditure growth whilst separate policy documents emphasise the existence of a

structural funding gap. The relationship between these two themes is not always readily apparent from the Accounts themselves.

The challenge for future years is not to produce more information, but to present existing information more clearly so that the States' true financial position and financial sustainability can be readily understood. Public accountability depends not only on the accuracy of financial reporting, but on its clarity and accessibility.

Yours sincerely

A handwritten signature in blue ink, consisting of a large, stylized initial 'A' followed by a long, horizontal, slightly wavy line.

Deputy Andy Sloan
President of the Scrutiny Management Committee